This was published in today's edition of Investor's Business Daily. It outlines a few of my thoughts and ideas on the path towards restructuring our financial regulatory system.

IBD editorials

**Bold Changes Should Prevent Another Crisis**

By REP. JOHN CAMPBELL

The credit markets continue to unfreeze. The general economy continues to sink. There are new stock market lows and unemployment highs and we don't know where and how it will all end.

But it will end. And we need to start thinking about what regulatory structure will replace the one that failed us so miserably this time. We came perilously close to an abyss (or collapse or Armageddon, depending on who is describing it).

I looked down into that abyss and what I saw was way scarier than any Stephen King movie. Therefore, I think we need dramatic changes to ensure that this sort of calamity does not befall us again.

So what do we do to keep it from happening again while still preserving free markets and rewarding enterprise and innovation? Here are a few thoughts:

**1. Banks should be boring entities that you can trust.** If you want to double earnings annually, go into another business. We have seen how important our regulated banking sector is to the entire economy. We cannot let them get into high-risk territory.

**2. Gambling should be left to casinos.** There is investment and speculation, and then there is gambling. To me, gambling is when there are instruments to bet on something going up or down without any interest in or benefit to the underlying asset. One example might be naked short selling. If you want to do that, great. But let's call it what it is: gambling, not investment. And let's keep it in casinos or someplace where it cannot infect the markets for those assets.

**3. No more entities that are too big to fail.** During the crisis, Treasury Secretary Paulson referred over and over again to entities that were "too big or too interconnected to fail." They did fail, and the taxpayers had to pick up the pieces. The moral hazard (another often-used term) created by this is unacceptable. Just as Teddy Roosevelt decreed that monopolies should no longer exist, we should decree that entities that are so big or interconnected that their failure will collapse our entire financial system cannot exist either. Break them up.

**4. Credit rating agencies.** There are basically two companies that give credit ratings on bonds. There should be more than that, and they should be completely independent of the companies whose debt they are rating.

**5. Stop having multiple regulators regulate the same thing.** There was a time when banks were different from savings and loans, which were different from thrifts. They all had separate regulators regulating the same things. That is an archaic model. Similar financial institutions should all have the same standards and one regulator.

**6. Fannie and Freddie.** These entities have provided a valuable service for decades, and owning a home is still the linchpin of the American dream. We should continue to support homeownership with some federal backing for the most secure loans. But rather than letting a lightly regulated entity play fast and loose with that government guarantee, let's follow more of a public utility model. In other words, a private entity that administers a government franchise in a tightly controlled way. And let's have more than two of them.

**7. Some insurance is nationwide.** Homes don't move, and cars rarely cross state lines. But various financial insurance products (credit default insurance, annuities, life insurance, etc.)

have no nexus in any state. Insurance companies that wish to market such products should have a federal regulator that is more focused on these as financial instruments, since they are distinct from traditional home and car insurance.

**8. Don't single out the SEC.** There will need to be a complete review of all of the duplicative and complementary regulators in financial markets to streamline the 70-year-old structure we have today.

**9. Accounting matters.** As a CPA, I love to point this out. Accounting rules for public entities do matter, as the debate on mark-to-market should indicate. We should transition from quarterly to semiannual financial statements so we can reduce market volatility and shift focus from short-term numbers to long-term viability. We should also move toward the international IFRS accounting standards while shielding companies from abusive shareholder lawsuits.

This is not a comprehensive plan, and there are lots of details I have left out in the interest of brevity. Furthermore, I don't claim to have all the answers. But I do have some ideas.

The one thing I do know is that I never want to experience what we have experienced this year ever again. I also do not want to stifle innovation and enterprise as we move forward. I do not think these two goals are mutually exclusive.

If investors make a wrong bet, they should lose. But when an investor makes a wrong bet, he or she should not be able to take half the economy down with them.

This will not be easy, but it must be done, and soon. Let's get to work.

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